

FMO/IMS

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Institute Members in Scotland

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Dear Ms Warne

CONSULTATION – CHARITY ACCOUNTING REGULATIONS, APRIL 2005

On behalf of the Institute Members in Scotland (IMS) Group of the Institute of Chartered Accountants in England and Wales (ICAEW), I am pleased to set out below comments on the above consultation paper.

Responses

Our responses below are made on the assumption that the Office of the Scottish Charity Regulator (OSCR) will have a remit for regular monitoring of charity accounts and procedures in place to highlight and investigate any apparent anomalies in accounts.

Thresholds

General

The thresholds currently refer solely to income. Charities may build up funds in initial years, prior to commencing projects, then spend the money subsequently. How a charity spends its funds is of public interest so thresholds should apply to income and/or expenditure – if either is over the threshold we suggest the rules should apply. At present regulations relate to gross receipts not income and this should continue for ease of computation.

Preparation of Receipts & Payments accounts instead of accruals accounting

We believe that preparation of accounts on an accruals basis is essential to give users of the accounts as well as trustees an accurate idea of the financial position of the charity and of how well its expenditure in the period has been covered by the income generated in the period.

However, we recognise that in small charities there is often no one with the skills and knowledge to prepare accounts on this basis, although we believe that an independent reviewer should usually have these skills. We feel that the proposed revised threshold of £250,000 is too high but are reluctant to have too many different thresholds.

We therefore suggest that if the threshold is to be £250,000, material debtors or creditors should be disclosed on the Statement of Balances, rather than in the notes to the accounts. There should also be a note on the Receipts and Payments account of what the surplus or deficit for the year would have been if the material debtors / creditors had been settled before the period end.

Independent Review

We support the proposal that there should be no exemption from Independent Examination for very small charities. Such a review can be of great assistance to the person preparing the accounts and gives them reassurance about their own work.

Audit Threshold

Wherever possible, we should like the regulations in Scotland to be no more onerous than those in the England and Wales. We therefore would like to see the audit threshold raised to £500,000 for consistency and to avoid any discouragement to charities to operate out of Scotland. Based on the figures in Table 1 of the paper, this is only likely to exempt around 200 charities.

In recent years, the regulatory requirements for being a Registered Auditor have become increasingly onerous. This, combined with the increase in the audit threshold for Limited Companies, has led many smaller accountancy practices to cease to carry out such work. It may therefore become difficult for smaller charities to find Registered Auditors able and willing to carry out this work for a reasonable fee.

If there is concern that tighter control than an independent review is required for charities with Income or Expenditure between £250,000 and £500,000, there could be a new requirement for a review carried out by a qualified individual for example a chartered accountant, chartered secretary or chartered banker.

Dormant Charities

It is not clear from the paper whether dormant charities with assets of more than £25,000 require an audit or an independent review. We believe an independent review should be sufficient for such charities.

Reporting to OSCR

We believe that charities should be required to submit accounts to OSCR in English. This ensures consistency between incorporated and unincorporated charities. However, if charities also wish to prepare accounts in Gaelic for their members they should be free to do so.

The Charities SORP

It is proposed that Charitable companies meet the requirements of charity law and company law by following the procedures laid out in the Charities SORP.

This is a complex document full of detail which will be irrelevant to the majority of small charities.

We would therefore like to see a guidance document for small incorporated charities which could be easily read and applied by charities which are not part of a larger group and which fall below the audit threshold. This guidance we suggest should be referred to in the Regulations but be a separate document (perhaps prepared by OSCR?) and contain 'model' accounts for charities of different types and sizes (as for example have been produced by the Charity Commissioners for England & Wales).

This would mean that the details listed under the headings of Trustees Report and SOFA would be unnecessary in the regulations and would allow increased flexibility.

Trustees Annual Report and Accounts

We would like it to be compulsory for all charity accounts to disclose the name, address and qualifications of the auditor or independent examiner.

ICAEW Members in Scotland

In 2001, the ICAEW established the Institute Members in Scotland (IMS) Group to conduct the normal functions of participation and representation of its members available to ICAEW Members elsewhere in the UK and Northern Ireland. The Group represents over 1,200 Chartered Accountants, 75% of whom work in Scottish business organisations including financial services, oil, media and the public sector. The IMS Group can draw on the extensive resources of the ICAEW, a professional body with more than 125,000 members worldwide.

The IMS Group welcomes circulation of Scottish Executive consultations to allow our members to contribute to policy thinking. We hope that the comments on Charity Accounting Regulations are helpful.

Yours sincerely



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